



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Indian Oasis- Baboquivari Unified School District No. 40

Year Ended June 30, 2004



Debra K. Davenport
Auditor General

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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 4, 2006

Governing Board
Indian Oasis-Baboquivari Unified School District No. 40
P.O. Box 248
Sells, AZ 85634-0248

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2004, to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Michael Stelpstra, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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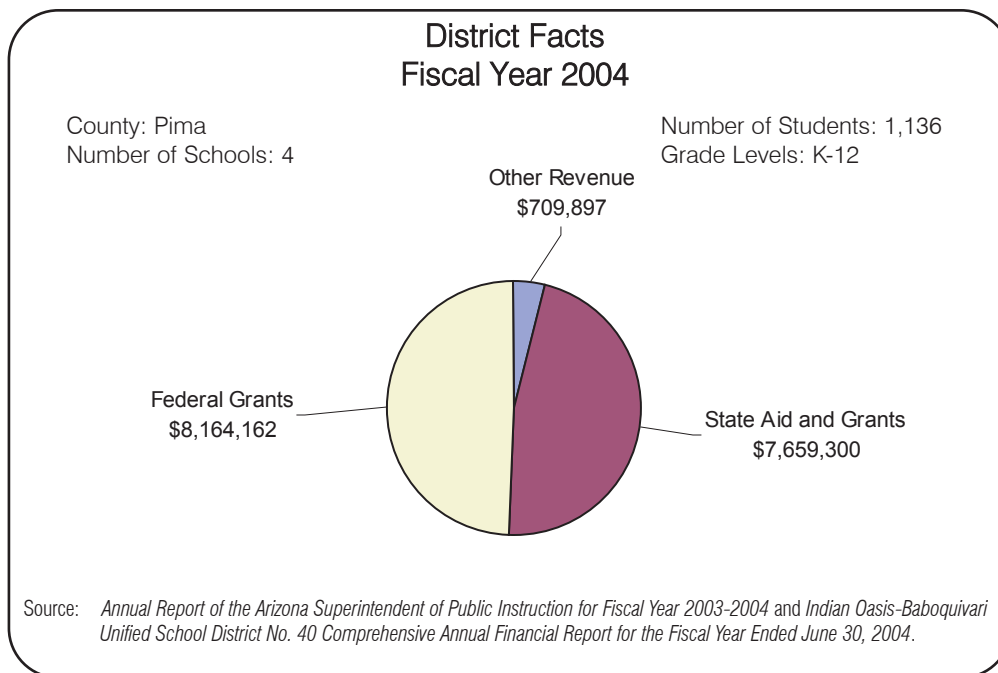
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INTRODUCTION

Indian Oasis-Baboquivari Unified School District No. 40 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$16 million it received in fiscal year 2004 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2004, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, the District did not issue invitations for bids for purchases that exceeded the competitive sealed bid threshold and did not follow competitive purchasing requirements when it issued requests for proposals. Additionally, the District did not always obtain at least three written or oral quotations for purchases that required them. Further, the District did not ensure that purchases made through a purchasing cooperative were bid by the cooperative in accordance with the School District Procurement Rules.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and to comply with the School District Procurement Rules and USFR guidelines, the District should establish and follow the policies and procedures below:

- Issue invitations for bids or requests for proposals for purchases of construction, materials, or services that exceed \$33,689.
- Obtain written governing board determinations that issuing invitations for bids is either not practicable or not advantageous to the District before issuing requests for proposals.
- Retain all documents necessary to demonstrate compliance with School District Procurement Rules for requests for proposals, including the time- and date-stamped proposal envelopes and documentation to support that the contract was awarded to the offeror whose proposal was most advantageous to the District.
- Obtain written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$33,689, and oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.
- Document the process used to determine whether purchasing cooperatives followed School District Procurement Rules.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than lowest cost are appropriate.

Guidelines for written and oral price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

The District's controls over expenditures should be improved

The District spends public monies to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are approved before committing district monies and that its expenditures are supported. However, the District did not follow such procedures since it did not always prepare purchase orders before ordering goods and services or retain vendor invoices to support expenditures. In addition, travel reimbursement rates exceeded the maximum rates established by the Arizona Department of Administration (ADOA) and were not always supported by receipts. Further, employees' biweekly pay amounts could not always be recalculated based on the employees' contracts or timesheets.

The District did not ensure that purchases were approved before goods and services were ordered.

Recommendations

To strengthen controls over expenditures, the District should prepare and approve purchase orders before ordering goods and services and maintain documentation, including vendor invoices, to support all expenditures. Also, the District should verify that travel reimbursement rates do not exceed ADOA-established maximum amounts and that travel claims are properly supported by detailed receipts before approving travel claims. Further, the District should ensure that amounts paid to employees agree to their supporting contracts, payroll authorizations, or timesheets.

USFR Memorandum Nos. 210 and 217 include the maximum travel reimbursement rates that the Arizona Department of Administration has established.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to help ensure that the District receives the appropriate amount of state aid. However, the District did not always retain student entry and withdrawal forms and student files. In addition, student entry forms were not always complete and entry dates did not always agree to the computerized attendance system. Further, the District did not properly record partial-day absences, and the computerized attendance system did not always agree to teacher attendance records. Finally, grades 7 and 8 were not in session for the minimum hours of instruction required by statute.

Grades 7 and 8 were in session for only 935 hours in fiscal year 2004 instead of the 1,056 hours required by Arizona Revised Statutes.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

USFR Memorandum No. 191 includes required instructional hours for each grade.

Recommendations

To help ensure that the District receives the correct amount of state funding, the District should record and report membership and absences in accordance with ADE's *Instructions for Required Reports*. A second district employee should verify that memberships and absences reported to ADE are calculated accurately and agree with the District's attendance records, including entry and withdrawal forms and teacher attendance records. Also, employees should complete student entry and withdrawal forms and retain them in the students' files. Further, the District should retain student files and ensure that all grade levels are in session for the minimum number of instructional hours required.

The District should maintain accurate accounting records

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that transactions are properly approved and accounted for. However, the District did not fully accomplish this objective. For example, the District did not properly account for indirect cost charges from the County School Superintendent (CSS), and the District did not reconcile its expenditure records to the CSS' records at year-end. Also, the District did not ensure that journal entries were reviewed and approved prior to posting them in the accounting records. Additionally, the District made a payment from the Maintenance and Operation revolving bank account that did not require an immediate cash payment, and the District did not properly carry its Classroom Site Fund budget balance forward from the prior year. Further, the District did not accurately report budgeted expenditures, actual expenditures, and capital asset information on its annual financial report (AFR).

The District's accounting records contained unauthorized transactions.

Recommendations

The following procedures can help the District record and report accurate financial information:

- Record indirect cost charges as transfers-out of the applicable grant fund and as transfers-in to the Indirect Costs Fund so that transfers-in equal transfers-out. Make payments to the CSS for indirect cost charges from the Indirect Costs Fund.

- Reconcile the District's records of expenditures by fund, program, function, and object code at fiscal year-end to the CSS' records. Investigate all reconciling items and make any necessary corrections.
- Require a supervisor to review and approve journal entries before they are posted to the accounting records.
- Use the Maintenance and Operation revolving bank account only for activities that require immediate cash payments such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements, as required by statute.
- Carry forward the unexpended budget balances for each of the three Classroom Site Funds to the following year's budget in accordance with Arizona Revised Statutes §15-978.
- Update accounting records for all expenditures and capital asset balances before preparing the AFR. Once prepared, have a second employee verify that amounts reported on the AFR agree to the District's revised budget and accounting records before it is submitted to ADE.

USFR pages VI-B-8 through 10 include reconciliation procedures.

The District should strengthen controls over cash

Because of the relatively high risk associated with transactions involving cash, school districts should establish and maintain effective internal controls to safeguard cash. However, district employees did not prepare cash receipt forms and cash receipt summaries for cash and checks received for the Child Development Lab and the car wash.

Poor cash controls left district monies susceptible to loss, theft, or misuse.

Recommendation

To help strengthen controls over cash, the District should prepare prenumbered and numerically controlled cash receipt forms and cash receipt summaries for all monies received.

USFR page VI-C-1 provides guidance for proper cash receipt procedures.